



# Texas Manufacturing Outlook Survey

F E D E R A L R E S E R V E B A N K O F D A L L A S

May 29, 2012

## TEXAS MANUFACTURING EXPANDS BUT NEW ORDERS REMAIN FLAT

Texas factory activity continued to increase in May, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, held steady at 5.5, suggesting growth continued at about the same pace as last month.

Other measures of current manufacturing conditions indicated flat or increased activity in May. The new orders index posted a near-zero reading for the third consecutive month, suggesting order volumes have stagnated since February. Shipment volumes were flat again in May, with the index near zero for the second month in a row. The capacity utilization index came in at 5, up from 1.4 in April, with one-quarter of respondents noting increases.

Perceptions of broader economic conditions were mixed in May. The general business activity index remained negative for the second consecutive month and edged down from -3.4 to -5.1. Fifteen percent of firms noted improvement in the level of business activity, while 20 percent noted a worsening. The company outlook index rebounded into positive territory after turning negative last month, coming in at a reading of 4.7. Twenty-one percent of manufacturers noted an improved outlook, up markedly from 11 percent in April.

Labor market indicators reflected slightly slower labor demand growth and shorter workweeks. Employment grew again in May, but the pace continued to slow; the index receded from 11.8 to 8.5. Eighteen percent of firms reported hiring new workers, while 10 percent reported layoffs. The hours worked index remained negative but edged up from -4.6 to -2.2.

Input prices and wages continued to increase in May, but selling prices were flat. The raw materials price index was 20.2, down slightly from 21.2 in April. The wages and benefits index moved up from 15.2 to 20, suggesting stronger upward pressure on compensation costs. Selling prices were roughly unchanged in May, as the finished goods price index was near zero. Looking ahead, 41 percent of respondents anticipate further increases in raw materials prices over the next six months, while 23 percent expect higher finished goods prices.

Expectations regarding future business conditions were less optimistic in May. The index of future general business activity dropped from 15.7 to 4.3. The index of future company outlook came in at 11.4, down slightly from 14.4 in April. Other indexes for future manufacturing activity also decreased, although all remained in strong positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected May 15–23, and 86 Texas manufacturers responded to the survey. Firms are asked whether output, employment, orders, prices and other indicators increased, decreased or remained unchanged over the previous month.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior month. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior month. An index will be zero when the number of firms reporting an increase is equal to the number of firms reporting a decrease.

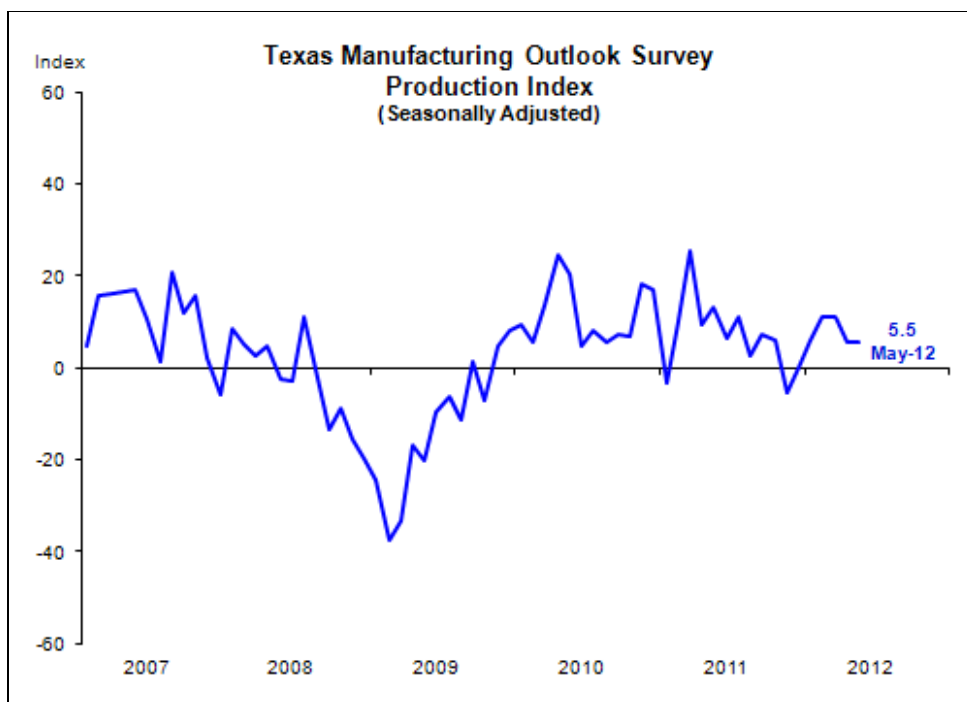
**Next release:** June 25, 2012

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	5.5	5.6	-0.1	Increasing	6	26.9	51.7	21.4
Capacity Utilization	5.0	1.4	+3.6	Increasing	6	25.5	54.0	20.5
New Orders	-0.6	-1.0	+0.4	Decreasing	3	25.3	48.9	25.9
Growth Rate of Orders	-3.7	-2.6	-1.1	Decreasing	3	20.6	55.1	24.3
Unfilled Orders	-4.0	-8.3	+4.3	Decreasing	2	15.8	64.4	19.8
Shipments	-0.2	-0.8	+0.6	Decreasing	2	26.7	46.5	26.9
Delivery Time	4.7	-1.1	+5.8	Increasing	1	12.8	79.1	8.1
Materials Inventories	7.2	7.3	-0.1	Increasing	2	23.3	60.6	16.1
Finished Goods Inventories	-2.4	-5.6	+3.2	Decreasing	4	11.6	74.4	14.0
Prices Paid for Raw Materials	20.2	21.2	-1.0	Increasing	34	27.1	66.0	6.9
Prices Received for Finished Goods	-0.5	-5.4	+4.9	Decreasing	3	8.2	83.1	8.7
Wages and Benefits	20.0	15.2	+4.8	Increasing	30	21.0	78.0	1.0
Employment	8.5	11.8	-3.3	Increasing	19	18.3	71.9	9.8
Hours Worked	-2.2	-4.6	+2.4	Decreasing	2	16.7	64.4	18.9
Capital Expenditures	6.9	6.1	+0.8	Increasing	8	17.5	71.9	10.6
<b>General Business Conditions</b>								
<b>Current</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	4.7	-4.5	+9.2	Improving	1	20.9	62.9	16.2
General Business Activity	-5.1	-3.4	-1.7	Worsening	2	14.9	65.1	20.0
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Six Months Ahead</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	31.6	38.5	-6.9	Increasing	39	40.6	50.4	9.0
Capacity Utilization	29.1	34.9	-5.8	Increasing	39	39.5	50.1	10.4
New Orders	22.8	31.4	-8.6	Increasing	39	35.1	52.6	12.3
Growth Rate of Orders	13.7	21.1	-7.4	Increasing	39	25.4	62.9	11.7
Unfilled Orders	4.8	4.6	+0.2	Increasing	11	14.3	76.2	9.5
Shipments	27.2	34.7	-7.5	Increasing	39	38.8	49.6	11.6
Delivery Time	-3.6	-2.3	-1.3	Decreasing	2	7.1	82.1	10.7
Materials Inventories	-5.9	5.8	-11.7	Decreasing	1	13.1	67.9	19.0
Finished Goods Inventories	-7.2	-2.3	-4.9	Decreasing	2	10.7	71.4	17.9
Prices Paid for Raw Materials	35.7	40.2	-4.5	Increasing	38	40.5	54.8	4.8
Prices Received for Finished Goods	16.6	16.1	+0.5	Increasing	22	22.6	71.4	6.0
Wages and Benefits	34.4	36.4	-2.0	Increasing	96	35.1	64.2	0.7
Employment	15.4	19.8	-4.4	Increasing	33	21.4	72.6	6.0
Hours Worked	2.6	9.8	-7.2	Increasing	38	9.0	84.6	6.4
Capital Expenditures	18.1	21.0	-2.9	Increasing	30	28.9	60.2	10.8
<b>General Business Conditions</b>								
<b>Six Months Ahead</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.4	14.4	-3.0	Improving	37	24.8	61.8	13.4
General Business Activity	4.3	15.7	-11.4	Improving	8	19.3	65.7	15.0

\*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

\*\*Number of months moving in current direction.

Data have been seasonally adjusted as necessary.



## COMMENTS FROM SURVEY RESPONDENTS

These comments are from respondents' completed surveys and have been edited for publication.

### Fabricated Metal Product Manufacturing

The ability to find potential new hires with the technical skills necessary to meet the minimum requirements of the job is getting harder and harder. We see this trend continuing in the near term until a fundamental change is made that recognizes that all high school graduates must have postsecondary readiness. This postsecondary readiness differs greatly from college readiness and recognizes that there are many paths students can take to succeed in today's job market. Postsecondary readiness successfully transitions high school graduates to skilled employment, advanced military training, an associate's degree, a bachelor's degree or technical certification without the need for remediation. Technological advances are transforming many careers, and jobs that once required nothing more than a toolbox now require familiarity with computer diagnostics, statistics or other skills. By giving students a solid academic background in core courses, we will equip them for the dynamic job market of the future.

We have been quite successful in 2012 in bringing in new customers. Already this year, the number of new accounts we have sold would be a good number for an entire year. Our industry capacity has shrunk over the past few decades, in part due to off shore sourcing. Reshoring now added to a reduced industry capacity is part of the reason we are attracting new business. We have kept our capacity increasing ahead of current demand and can accommodate new work.

Investment in the oil industry is on hold until after the November election.

### Machinery Manufacturing

The economy is picking up, but is still rather tenuous. The effect of the elections, foreign countries' policies and economic situations can result in extreme fluctuations very quickly. The companies that survive will be able to respond quickly without knee jerk reactions to each and every indicator.

Orders continue the trend of shorter lead times due to customers' lack of commitment until the last minute.

Our business and our view of the general level of business activity remain steady.

### Computer and Electronic Product Manufacturing

We are expecting demand increase through the balance of the year due to seasonality as well as hitting a cyclical bottom in the first quarter 2012. Increased concern in end demand due to Europe and China may temper recovery.

### Chemical Manufacturing

Customers have built inventory, and the rig count on a trailing basis is trending down. There is a major shift from gas

wells to oil wells, which use a different product mix. Our savior will be that we have two new customers coming online. We will see how much these new customers offset the reduction we are seeing from existing customers.

The only issue we are having is getting our bank to raise our credit limits.

### **Plastics and Rubber Products Manufacturing**

We are very busy. Thank goodness.

### **Nonmetallic Mineral Product Manufacturing**

We do not see any reason to change our outlook at this time. We are cautiously optimistic for a stronger economy in 2013. Current conditions, both internationally as well as within the United States, have created a confidence issue with consumers waiting on the sideline for some indication that risks have diminished to acceptable levels.

### **Wood Product Manufacturing**

The second quarter was 10 to 15 percent ahead of expectations, and the third quarter looks as if it will be similar. We are deeply worried about the fourth quarter and the first quarter 2013.

### **Food Manufacturing**

The recent strengthening of the dollar was positive for us. We need that trend to continue. Diesel is off its high, but is still very expensive. It shows up in the cost of everything we buy.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org).

The Texas Manufacturing Outlook Survey can be found online at [www.dallasfed.org/microsites/research/surveys/tmos/](http://www.dallasfed.org/microsites/research/surveys/tmos/).

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